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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 001010

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DEPARTMENT FOR EUR/CARC AND EB/ESC  
DEPT OF ENERGY FOR FE - SWIFT AND OS - WILLIAMSON

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TAGS: [ENRG](#) [ECON](#) [EPET](#) [EFIN](#) [PREL](#) [KZ](#) [RU](#) [TR](#)  
SUBJECT: EUR DAS MATT BRYZA AND TURKISH ENERGY ENVOY MEET  
SOCAR MARKETING VP ELSHAD NASIROV

REF: BAKU 736

Classified By: Charge d'Affaires Jason P. Hyland, reasons 1.4 (b), (d) and (e).

11. (C) SUMMARY. EUR DAS Matthew J. Bryza and Turkish MFA Special Energy Envoy Ambassador Mithat Balkan met with Elshad Nasirov, Vice President (marketing) of Azerbaijan's State Oil Company (SOCAR) on June 7 to discuss development of a new "Southern Corridor" to help Europe diversify gas supplies from the Caspian. Nasirov said that while Azerbaijan's number one priority is assuring adequate domestic supplies, Azerbaijan could certainly export gas volumes to Europe. Eventually, Nasirov added, Central Asian gas volumes could join this southern corridor, most likely from Kazakhstan. Nasirov agreed that the project needs to move quickly, in the face of Gazprom's rising prices and the prospect of Kazakhstan obligating its volumes to China. Nasirov also expressed concern that Turkey would want to buy and resell the Azerbaijani gas at potentially non-commercial prices rather than allow the gas to transit for a set fee. Nasirov pointed out that such a Gazprom-like approach would render the southern corridor non-viable. On the Inter-Governmental Agreement for trans-Caspian oil between Kazakhstan and Azerbaijan, Nasirov said that the demands of international investors to settle all outstanding issues in this document were "excessive." END SUMMARY.

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A NEW VISION: THE SOUTHERN GAS CORRIDOR  
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12. (C) DAS Bryza, accompanied by Charge, S/P consultant Steve Hellman and Energy Officer, began the meeting by discussing the reinvigorated strategic partnership between the United States and Turkey, including energy, and symbolized by the joint presence of DAS Bryza and Ambassador Balkan. DAS Bryza described the vision of a new "southern corridor" to bring Caspian gas resources to Europe, specifically bringing Azerbaijani gas to Greece, and introduced S/P consultant Steve Hellman as someone with extensive commercial experience who would provide subject-matter expertise. DAS Bryza said it is important for Azerbaijan to "win the race" with Gazprom for access to markets in Italy and Greece, with Greece being the greater priority, by getting Azerbaijani gas into the Turkey-Greece-Italy Interconnector (TGI). Ambassador Balkan echoed this, pointing out that Azerbaijan could secure serious market share in the future by making small, symbolic

sales now.

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AZERBAIJANI ENERGY POLICY - MARKET ACCESS, DOMESTIC NEEDS  
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13. (C) Nasirov responded by relating Azerbaijan's energy policy to its geostrategic position as a small country stuck between two powerful neighbors - "it is difficult to be the meat in the hamburger." BTC made sense for Azerbaijan - not only politically, he stressed, but economically. Nasirov pointed out that sending Azerbaijani oil either through Russia or Iran would have placed that oil in direct competition with Russian and Iranian volumes for limited port and shipping facilities. Only through BTC had Azerbaijan been able to achieve access to the international market. BTC has the added benefit of being a Bosphorus bypass and assists in stabilizing Georgia (a country, Nasirov dryly noted, which seems "an ideal illustration of Trotsky's concept of the permanent revolution").

14. (C) When it comes to gas, Nasirov said that Azerbaijan's first priority is to satisfy its domestic needs (after meeting its existing commitments to Georgia and Turkey). He related again the story of how in 2005 Gazprom officials unilaterally altered their negotiated gas sale agreement with Azerbaijan from a price of USD 60 per cubic meter to a price of USD 110 per thousand cubic meters (reftel). Nasirov noted that some in Azerbaijan have advocated buying more Iranian gas as a quick way of reducing dependence on Russian gas, but as "the Iranians have been trading for three thousand years," it is doubtful that their price will be any better than Russia's. Iran now supplies gas to Azerbaijan's exclave of

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Nakchivan in exchange for Azerbaijani electricity to northern Iran, Nasirov said. Nasirov added that Iran still "owes" some gas to Azerbaijan, and at the Kiev GUAM summit, it was proposed that this "returned" gas from Iran be funneled to Georgia - but the Georgians and Iranians have to first agree on price. Nasirov pointed out that Azerbaijan plans to increase its own domestic, non-Shah Deniz gas production by 1 bcma in any event.

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GAS EXPORT LIKELY BUT NOT WITH A "TURKISH GAZPROM"  
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15. (C) Nasirov said that he does not see Azerbaijan's domestic gas needs preventing Azerbaijan from becoming a major gas exporter. However, Nasirov expressed concern about the possibility that Turkish state pipeline company BOTAS would buy and resell Azerbaijani gas rather than allow the gas to transit Turkey. Nasirov pointed out that there is no point building a new gas route to avoid the Gazprom monopoly if Turkey functions as a "second Gazprom." Ambassador Balkan said he would convey these thoughts to Ankara.

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KAZAKHSTAN THE MOST LIKELY CENTRAL ASIAN PARTNER  
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16. (C) Nasirov said that Kazakhstan should eventually be added to the proposed southern gas corridor, and once a Kazakhstan-Azerbaijan gas pipeline is built it could also carry Turkmenistani or Uzbekistani gas. However, echoing a common Azerbaijani theme, Nasirov pointed out that Kazakhstan is tied to Russia in many ways and therefore must move gradually on this project. The addition of Central Asian gas to Azerbaijan's gas volumes, said Nasirov, could provide enough gas to supply not only the TGI but also the Nabucco project. Nasirov agreed that speed is vital for two reasons. One is that Gazprom will continue to increase its gas prices to Azerbaijan. The other is that Kazakhstan could end up obligating all its available gas (which Nasirov estimated as 50-60 bcm) to China. Nasirov added that he does not feel

Turkmenistan is a realistic possibility for gas export under its current leadership and that he does not expect that situation to change for some time.

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IGA FOR TRANS-CASPIAN OIL  
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¶17. (C) DAS Bryza noted that there is some concern that the draft IGA for trans-Caspian oil between Kazakhstan and Azerbaijan is insufficiently attentive to investor concerns. Nasirov responded that the international partners had made excessive demands that everything be settled in the IGA in order to start investments. Nasirov said he had talked to Kazakhstan's Deputy Energy Minister Kiinov who had agreed that the pre-existing text had been "all about the investors." Nasirov pointed out that the HGAs would yet be negotiated and the IGA and HGA would be signed as a package.

¶18. (U) DAS Bryza has cleared this cable.  
HYLAND